Greek Turmoil Could Spread – Risk of Bail-Ins in U.S. and Globally

goldcore.com /us/gold-blog/greek-turmoil-spread-risk-bail-ins-u-s-globally/

By Mark O'Byrne

Greece's financial markets are in turmoil again as a vote in parliament – failing to elect a new president – made a general election inevitable. Greek markets saw severe sell offs , with yields on Greek government bonds rising and shares prices collapsing 13% at one point yesterday and closing 7% lower on the day.

Greece 10 Year – 3 Months (Thomson Reuters)

Greek bank shares collapsed by even more. Two of Greece's largest banks, Piraeus bank and Alpha bank, shed more than 14% of their share value as concerns of bank solvency, bank runs and Cyprus style bail-ins reemerged.

Market reaction elsewhere was mixed with markets in low volume Christmas trading. Northern European stock markets, the FTSE, DAX and CAC, eked out small gains while southern markets saw renewed jitters.

The Greek result led to sell offs in Spain and Italy, which narrowly escaped the sovereign debt crisis that led to Greece's 2010 bailout. Spanish and Italian bond yields rose, pushing Madrid's IBEX stock market down 1 percent while Italy's FTSE MIB fell 1.2 percent.
Greece and the risk of new Eurozone debt crisis will now – again – be a key focus for investors in 2015.

The question now is whether this will lead to wider market volatility across Europe in the run up to the Greek general election, due on January 25th, and, more importantly, what will happen after the election.

The left-wing, anti-austerity Syriza party is ahead of the incumbent New Democracy, led by prime minister Antonis Samaras, in the polls. Syriza is currently the most popular group in polls with almost 30% of Greeks saying they will vote for the anti-austerity coalition.

It will campaign on the platform of an end to austerity and a re-negotiation of Greece's debts to the EU. This may well cause conflict with the EU and the ECB, and there is a real risk of renewed eurozone instability.

Alexis Tsipras, head of Syriza said: “With the will of our people, in a few days the bailout agreements of austerity will be history” as his group intend to renegotiate the bail-out deals.

The IMF are suspending their loans to Greece until a new government is formed.

The implications of this development could be quite dramatic for Greece and for the Euro-zone. President of the European Commission, Jean Claude Juncker had warned Greek parliamentarians not to “vote wrong.”

Goldman Sachs recently warned:

“In the event of a severe Greek government clash with international lenders, interruption of liquidity provision to Greek banks by the ECB could potentially even lead to a Cyprus-style prolonged “bank holiday”. And market fears for potential Euro-exit risks could rise at that point.”

Tsipras has insisted that he will not unilaterally restructure Greece’s financial arrangements with the troika and that any changes would be made through negotiation. In this light, Goldman’s prognostications appear alarmist.

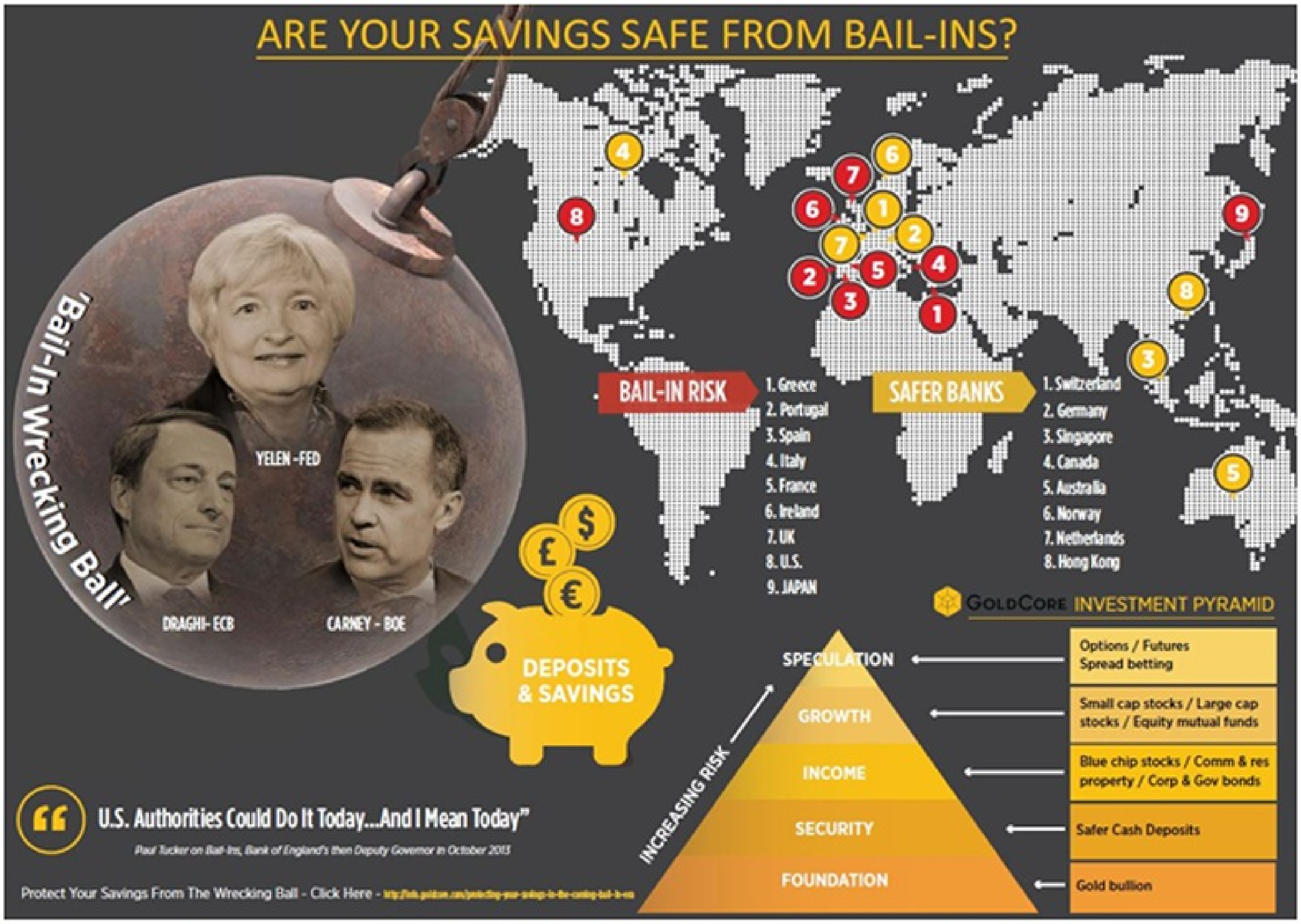
Tsipras was quick to try to allay fears that Greeks may have about the specter Goldman raised of a “Cyprus-Style” bank-holiday, in other words the verboten word “bail-ins”.

“A Syriza government and its allies will safeguard – without any footnotes or asterisks – the deposits of citizens at Greek banks, in cooperation with the European Central Bank and European partners.”

“Let’s put an end to the horror stories.”

However, it could be that the fear-mongering of the past few weeks may become self-fulfilling prophecies if Greeks decide that their cash is safer under the mattress than in a risky Greek bank earning little or no interest.

Then the ECB would be confronted with having to “bail-out” Greece or more likely would opt for bail-ins whereby the deposits of Greek savers and companies are frozen in “bank holidays” prior to being seized in a Cyprus style cash grab.



In such a scenario, the ECB would likely be forced to abandon its proposed bond-buying scheme early next year as it could not be seen to be openly buying toxic debt. This in turn could have knock on effects for the global economy as the anticipated liquidity the ECB were to provide evaporates.

The complete lack of awareness and debate regarding the risk of bail-ins in the U.S and indeed internationally continues. Investors and savers need to take action in terms of diversification in order to protect themselves from the coming bail-in regimes.

Must read guide and research on bail-ins here:
Protecting Your Savings In The Coming Bail-In Era

MARKET UPDATE
Today's AM fix was USD 1,186.50, EUR 976.54 and GBP 764.50 per ounce.
Yesterday's AM fix was USD 1,194.00, EUR 978.29 and GBP 766.86 per ounce.

Spot gold fell $11.50 or 0.96% to $1,183.80 per ounce yesterday and silver slipped $0.26 or 1.62% to $15.77 per ounce.

Gold inched up initially yesterday as equities weakened but may have been held back by the dollar's strength as it reached a nine year high against other fiat currencies.

The dollar is gaining support from uncertainty in Europe, after the news on Monday that Greece was unable to elect a new president. Greece will now hold an election on January 25th following the Greek Parliament's rejection of Prime Minister Antonis Samara's nominee for President.

Spot gold rose 0.5% to $1,188.10 an ounce by late morning in London. Yesterday, the yellow metal

dropped nearly 1% after gaining almost 2% on Friday.

Gold is down nearly 1% this year in dollar terms but has made good gains in other currencies. Gold has done particularly well considering the strong headwinds of a stronger U.S. dollar coupled with the recent plummeting brent crude oil prices.

China's bullion demand has not waned and remains extremely robust with premiums on the Shanghai Gold Exchange (SGE) climbing to $5-6 over spot prices from lows of $1-2 seen at the beginning of

Gold in USD – 2 Years (Thomson Reuters)

Gold in GBP – 2 Years (Thomson Reuters)

December.

SGE vault deliveries reached its highest in over a year at 61.6 tonnes in the week ending December 19th, increasing the year-to-date figure up to a whopping 2,016 tonnes.

Silver was up 0.8% at $15.89 an ounce, while spot platinum was up 0.7% at $1,201.25 an ounce and spot

palladium was up 0.3% at $807.80 an ounce.

Get Breaking News and Updates On Gold **Here**

admin

Gold in Euros – 2 Years (Thomson Reuters)